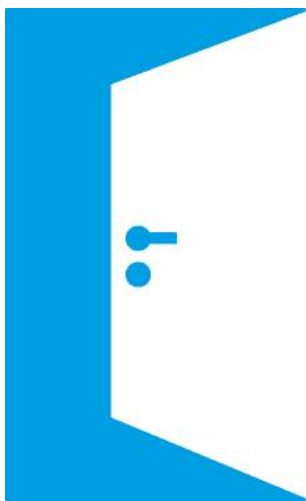


EXPORT RÅDDET

SWEDISH TRADE COUNCIL

BUSINESS CLIMATE SURVEY, RUSSIA 2010



Swedish Trade Council

Moscow, March-May 2010

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- Summary
- Introduction and methodology
- General business climate
- Establishment and operations
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SUMMARY

- 50% of the Swedish companies are within the service sector
- Approximately half of the companies were established before 1998
- More than 50% of the Swedish companies are classified as “Large Corporations” with a turnover of more than 50 million Euro per year
- The perception of Swedish businessmen is very positive
- Finding a reliable business partner is considered rather difficult
- English skills among Russians are low
- Gathering information is very hard, especially from the authorities
- About 40% have an action plan for how to handle situations involving bribes
- Some form of corruption is common in a company’s daily work in Russia
- The overall assessment is that the risk level in Russia is high
- Establishing a company is considered fairly hard

SUMMARY

- Renting office space is considered easy and few have experience renting warehouse or industrial land
- The customs process is one of the most non-satisfying procedures in the Russian market
- Demanding bureaucracy makes product certification hard in Russia
- Aviation and railroads are well functioning, roads are not
- Communication in any form is working well except through the postal office
- Finding the right personnel is hard
- The salary level alone is not a reason for moving production to Russia
- Almost two thirds believe the legislation to be not favorable
- Governmental actions influence the operations of companies
- Refunding of VAT is not working satisfyingly

SUMMARY

- Governmental actions influence the operations of companies
- The opinion of how payment terms are followed differs
- The accounting systems differ but are not causing big problems
- Company taxation is considered beneficial by one out of three respondents
- The bank system is overall not functioning satisfyingly
- The future growth potential has been carefully adjusted downwards since the crisis of 2008
- Finding personnel is believed to be a bit easier since the last survey
- Infrastructure has improved but the legal system is considered less stable
- Profitability and future growth potential is considered to be very good
- One in two is planning to expand their business in russia

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BUSINESS CLIMATE SURVEY, RUSSIA 2010

The Swedish Trade Council in Russia has conducted a Business Climate Survey during 2010.

The main purpose has been to scrutinize and analyze the current business climate as perceived by Swedish companies present in Russia. The business climate survey cover areas such as the Russian law system, the economical and financial situation, establishment and trade conditions as well as the investment climate.

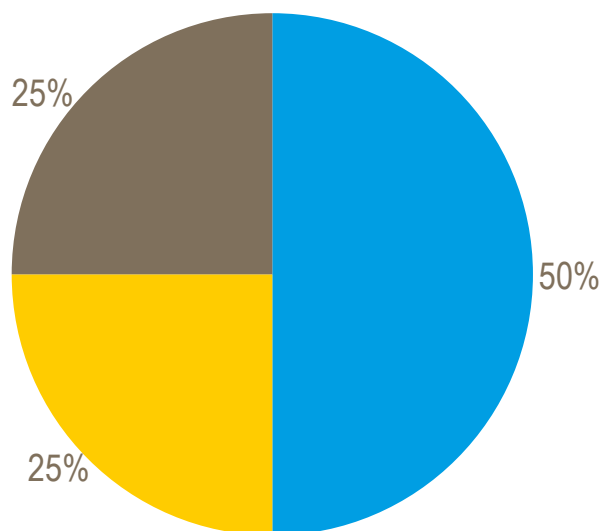
The results of the Business Climate Survey 2010 has been compared with results from the last report from 2008 in order to investigate if there has been any change in attitude towards the Russian market. The report of 2010 has put extra focus on questions regarding corruption due to demand from previous participants of the survey.

The survey is based on answers from web questionnaires and interviews carried out with a large number of Swedish companies established in Russia. The questionnaire was sent out to more than 100 Swedish related companies in Russia. The survey was also complemented by 10 interviews with carefully selected Swedish businessmen who have long experience of doing business in Russia and have good insight in the Russian business environment.

THE MAJORITY OF SWEDISH COMPANIES ARE ACTIVE IN THE SERVICE SECTOR AND STARTED WITHIN THE LAST TEN YEARS

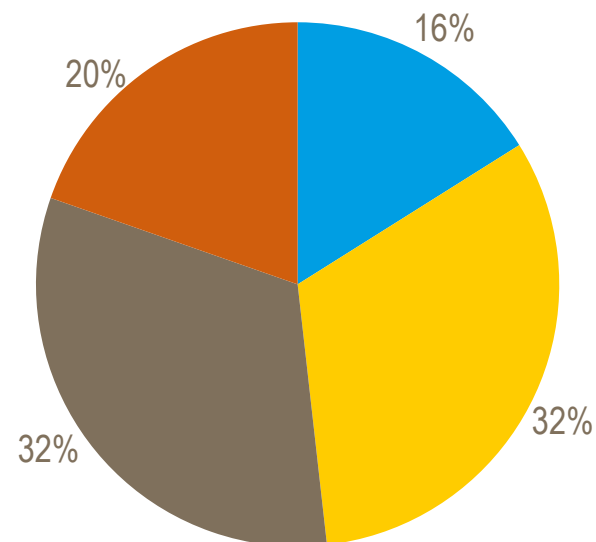
Respondents by sector

■ Service ■ Production ■ Trade



Companies established on the market

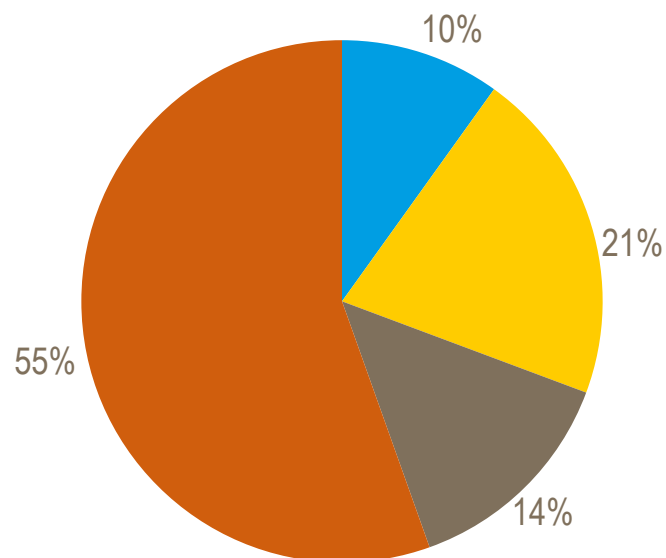
■ Before 1990 ■ 1991-1998 ■ 1999-2006 ■ After 2007



JUST OVER 50% OF THE COMPANIES HAVE A TURNOVER OF MORE THAN 50 MILLION EURO

Respondents by turnover

■ < 2 M € ■ 2-10 M € ■ 11-50 M € ■ > 50 M €



To what part does your revenue in Russia contribute to your total revenue?

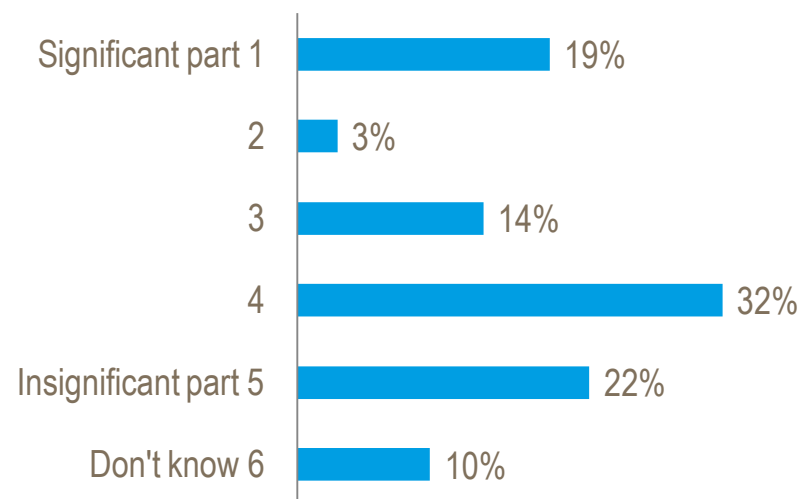
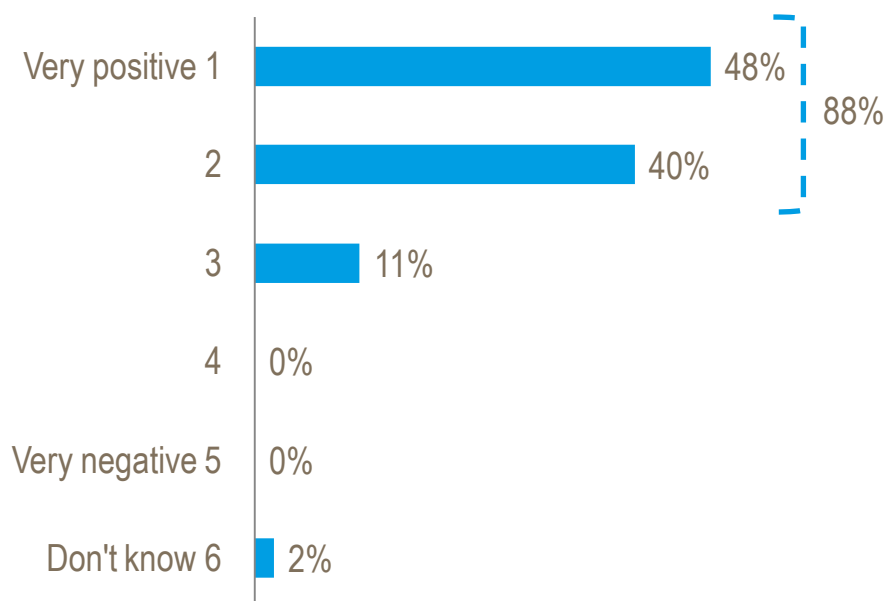


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THE PERCEPTION OF SWEDISH BUSINESSMEN IS VERY POSITIVE AND HAS INCREASED SINCE 2008

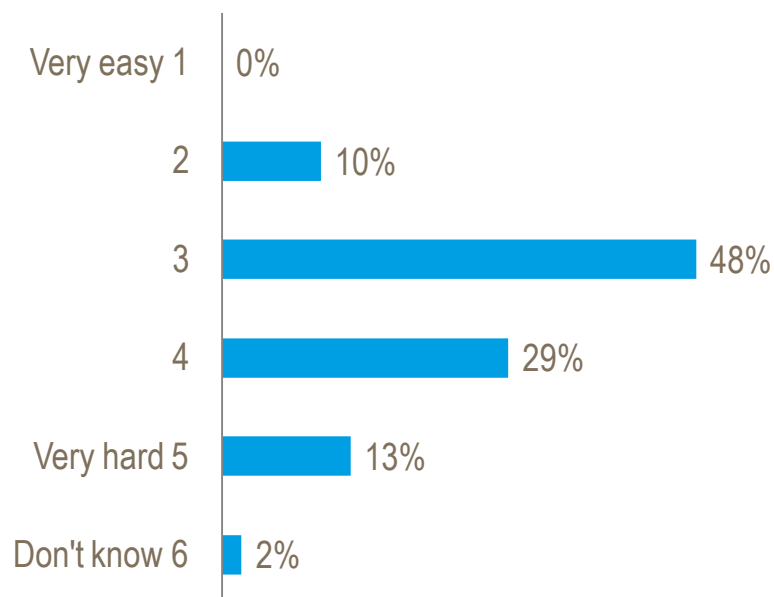
How are you perceived as a Swedish businessman?



- 88% of respondents believe that they are perceived positively as Swedish businessmen. Almost 50% think that they are very positively perceived
- None stated that they were negatively perceived
- The Swedish businessman is often perceived as a reliable business partner

FINDING A RELIABLE BUSINESS PARTNER IS CONSIDERED RATHER DIFFICULT

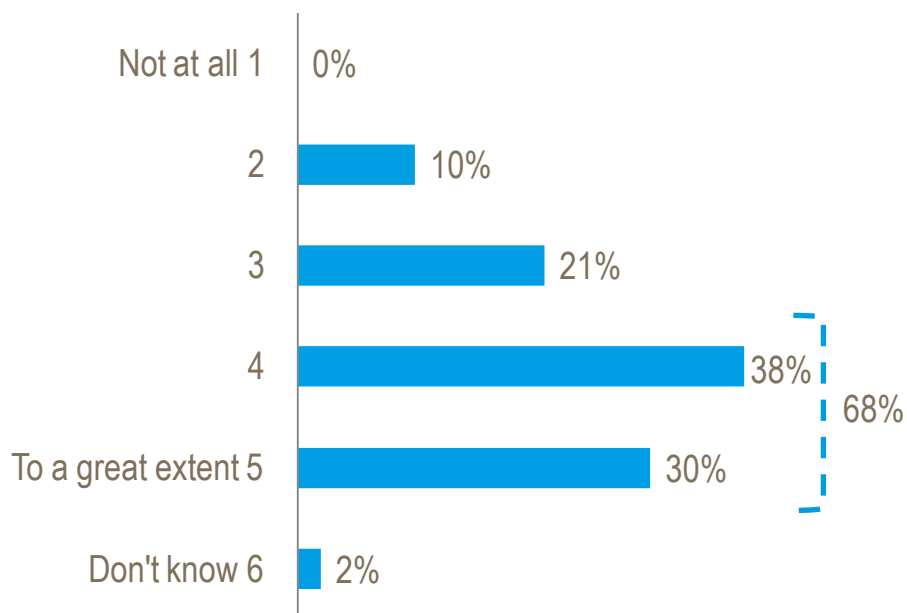
How do you estimate the possibility to find reliable business partners?



- No one is considering finding a business partner very easy but at the same time is almost 50% regarding it as neither easy nor hard
- Smaller companies finds it more difficult to find reliable business partners
- The language is often a barrier to find business partners.

ENGLISH SKILLS AMONG RUSSIANS ARE LOW AND SPEAKING RUSSIAN THEREFORE GIVES YOU AN ADVANTAGE

Have you experienced limited English skills when doing business in Russia?

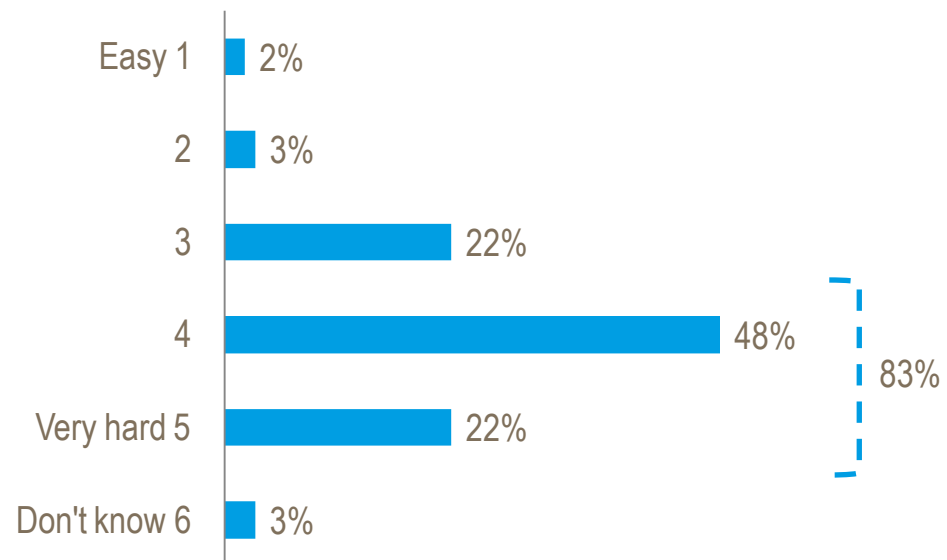
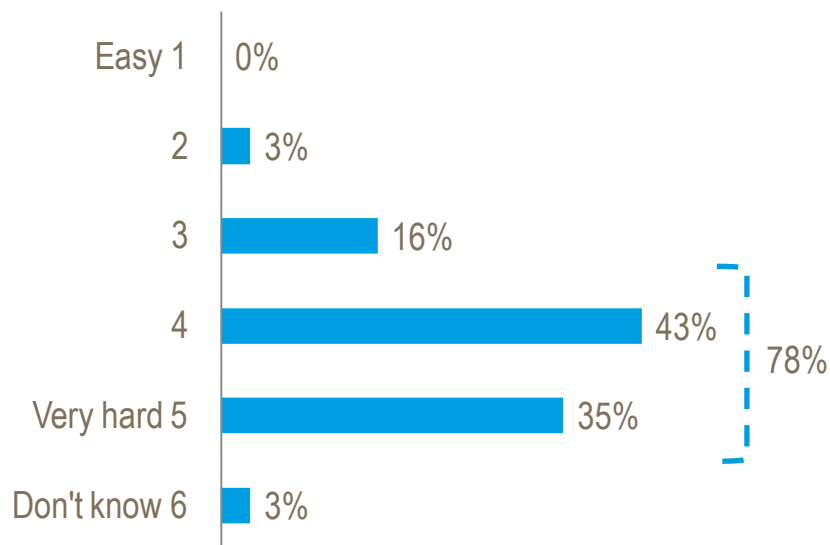


- English skills are still at a low standard in Russia and 30% have experienced it to a great extent
- An interpreter is often needed when attending meetings
- However, English skills are improving as younger post-Soviet Russians are entering the labor market
- Remember that some knowledge of the Russian language demonstrates your interest in the Russian culture and manners

GATHERING INFORMATION IS VERY HARD, ESPECIALLY FROM THE AUTHORITIES

How do you estimate the gathering of financial information about local companies?

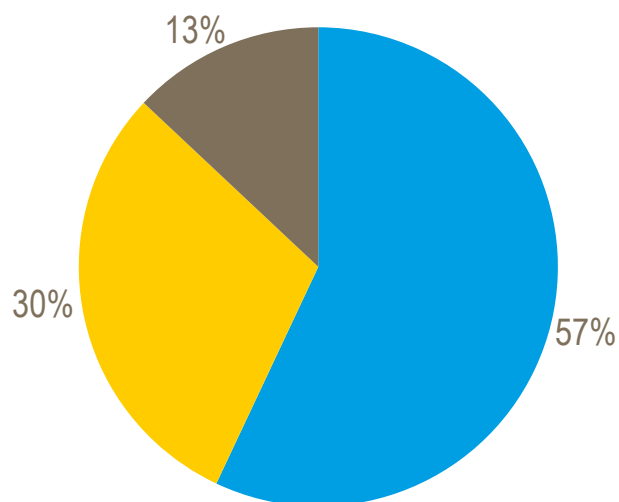
How do you estimate the gathering of information from the authorities?



ABOUT 40% HAVE AN ACTION PLAN FOR HOW TO HANDLE SITUATIONS INVOLVING BRIBES

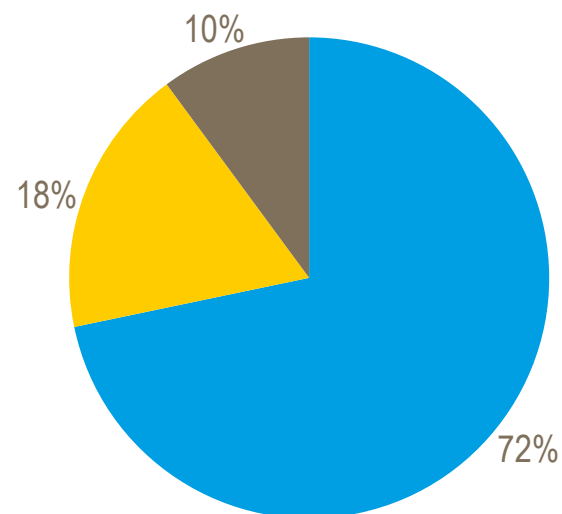
Does your company have a clearly communicated "code of conduct"?

■ Yes ■ No ■ Don't know



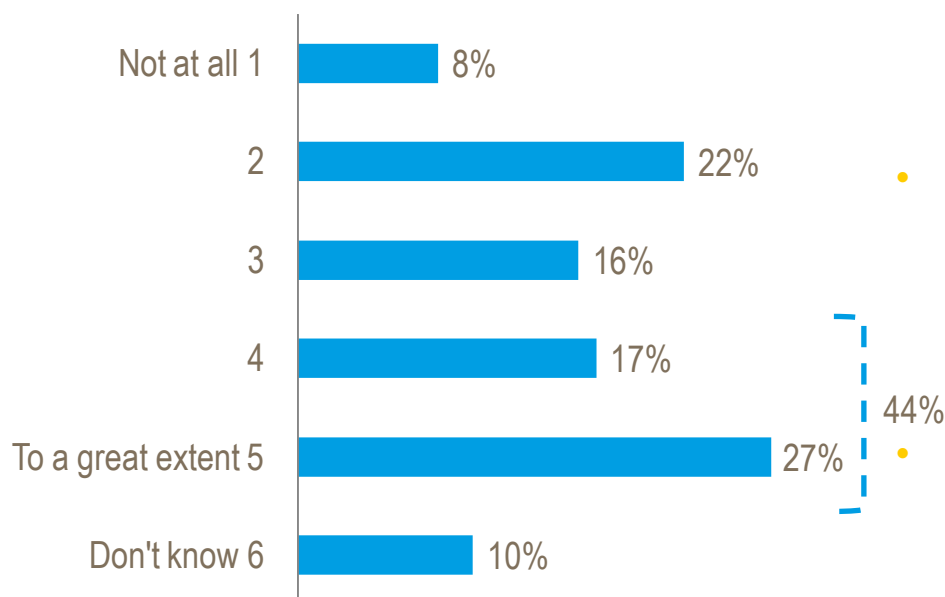
If yes, have you handled how to handle possible corruption/bribes?

■ Yes ■ No ■ Don't know



SOME FORM OF CORRUPTION IS COMMON IN A COMPANY'S DAILY WORK IN RUSSIA

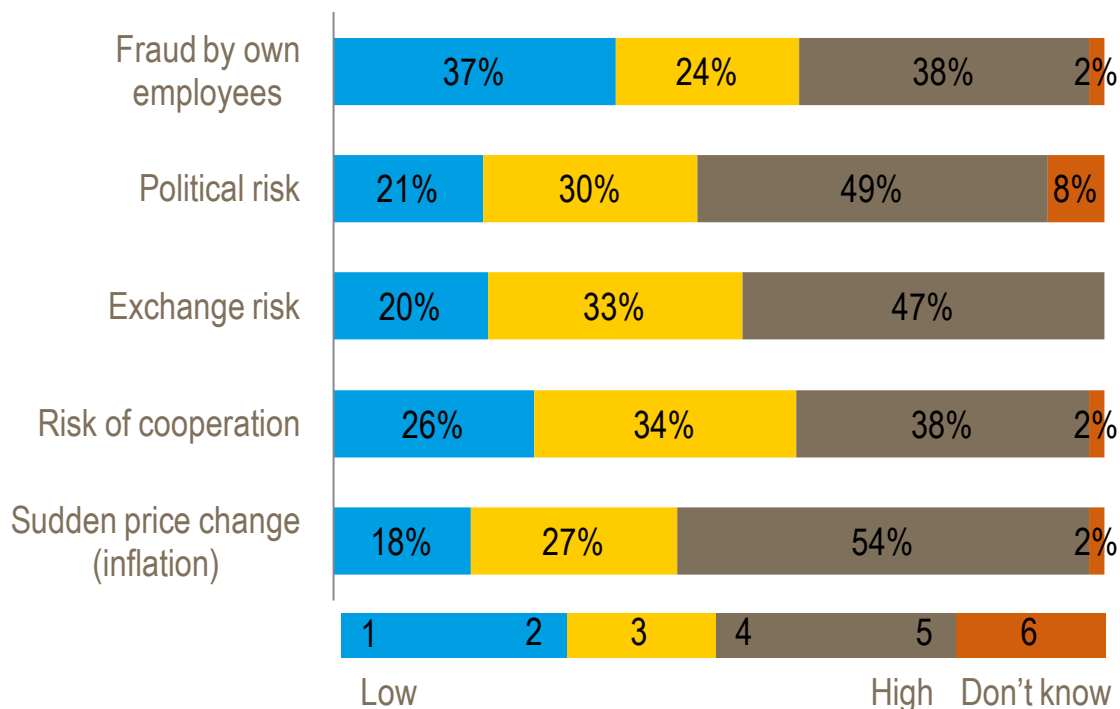
Have you experienced corruption in your daily work?



- Corruption is believed to be very common in Russia and Swedish businessmen confirm this idea
- However, the extent to which businessmen are exposed varies. Smaller companies experience corruption to a greater extent than large companies
- Corruption is more common when in contact with the authorities

THE OVERALL ASSESSMENT IS THAT THE RISK LEVEL IN RUSSIA IS HIGH

How would you estimate the risk of the following:



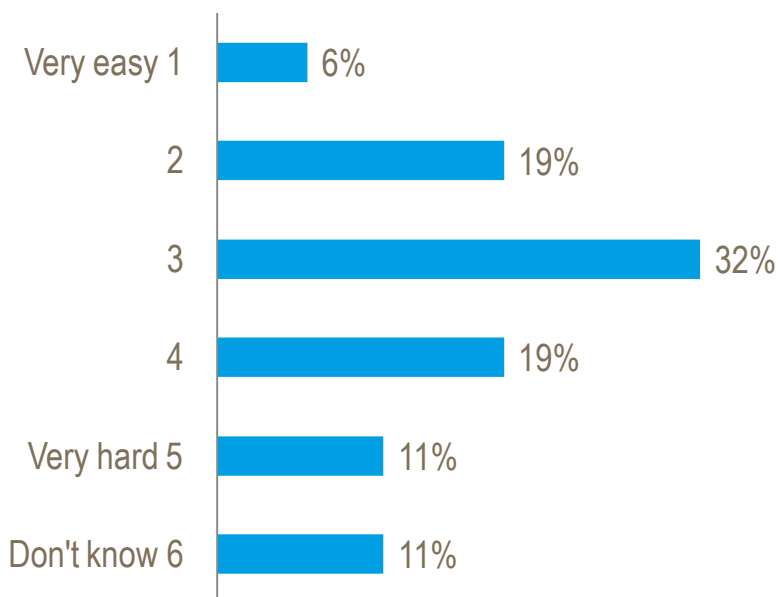
- Especially the risk of sudden price changes is high according to the respondents

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ESTABLISHING A COMPANY IN RUSSIA IS CONSIDERED FAIRLY HARD

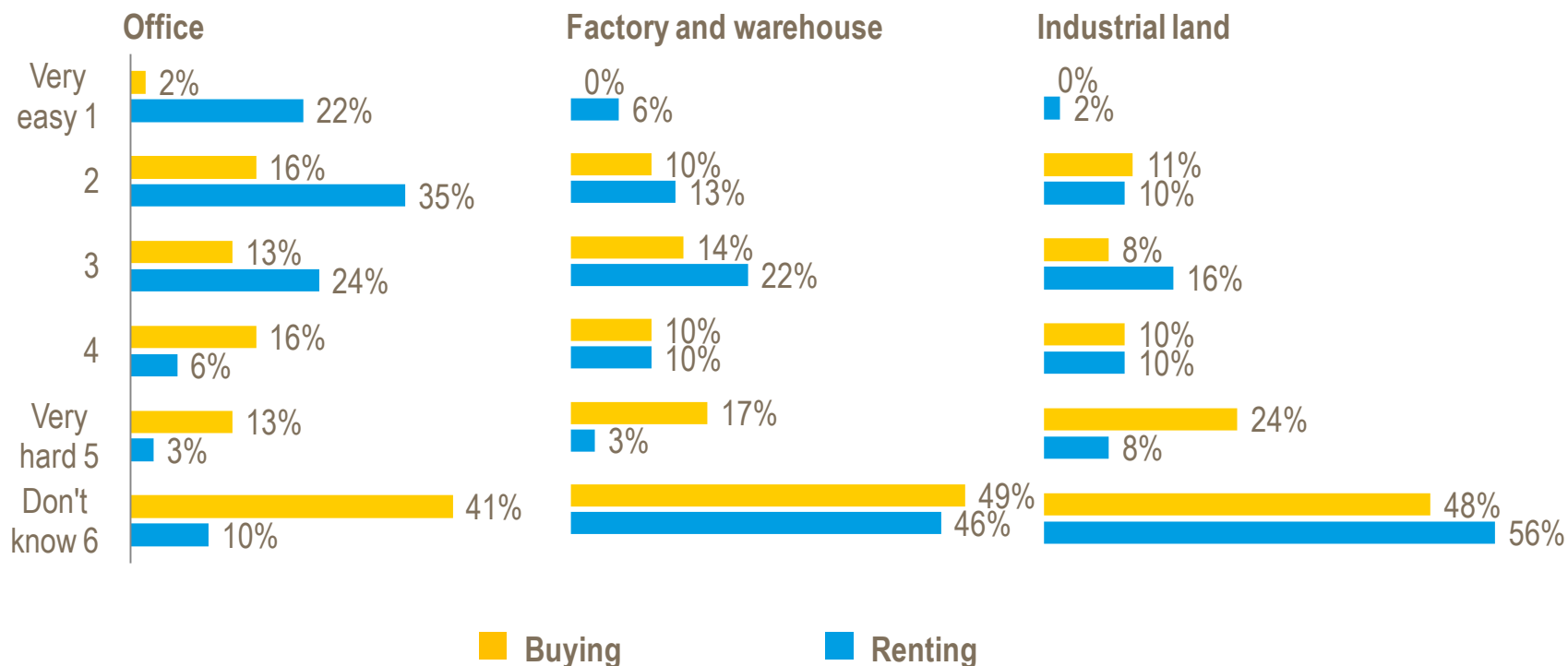
How difficult was it to establish your company?



- One in three thought it was neither hard nor easy
- Smaller companies believed it was easier than the larger companies
- Establishment includes formation of company, registration, necessary licenses, working permits etc
- Swedish companies in general underestimate this challenging and time-consuming process

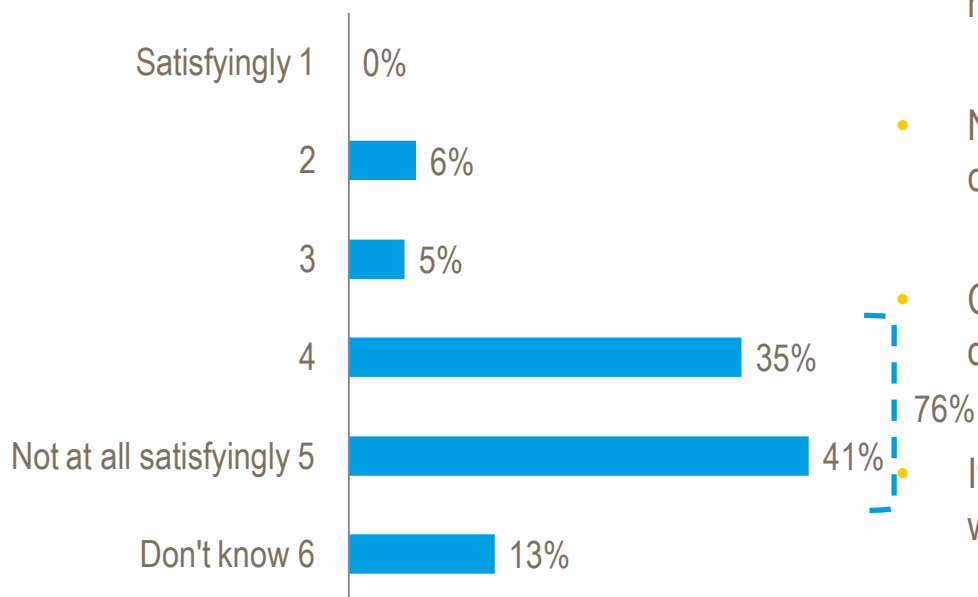
RENTING OFFICE SPACE IS CONSIDERED EASY

What is your opinion on renting and buying?



THE CUSTOMS PROCESS IS ONE OF THE MOST NON-SATISFYING PROCEDURES IN THE RUSSIAN MARKET

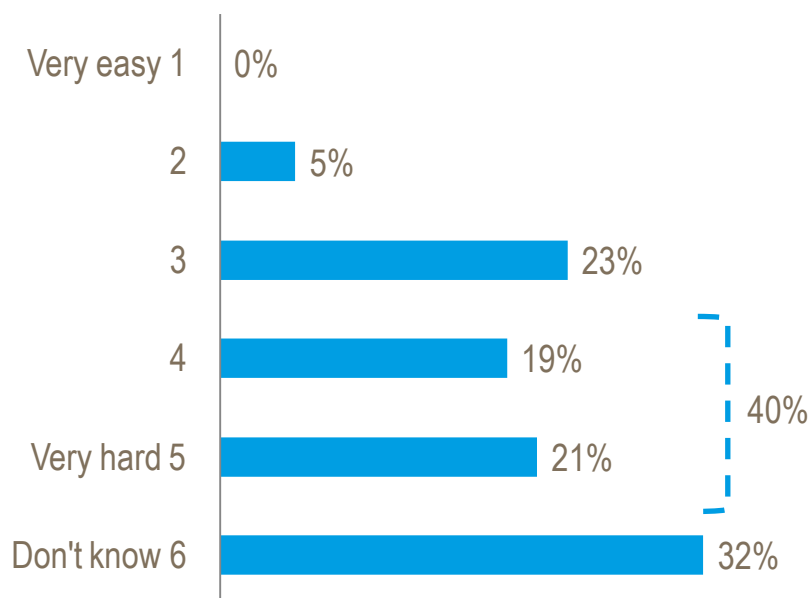
How do you think the customs processes work?



- 76% of the respondents believe it is very hard to handle the customs processes
- None of the approached respondents believed custom processes to work satisfyingly
- Customs processes problems are especially difficult for companies within the trade industry
- It is very important that all documents are in order when handling with customs

DEMANDING BUREAUCRACY MAKES PRODUCT CERTIFICATION HARD IN RUSSIA

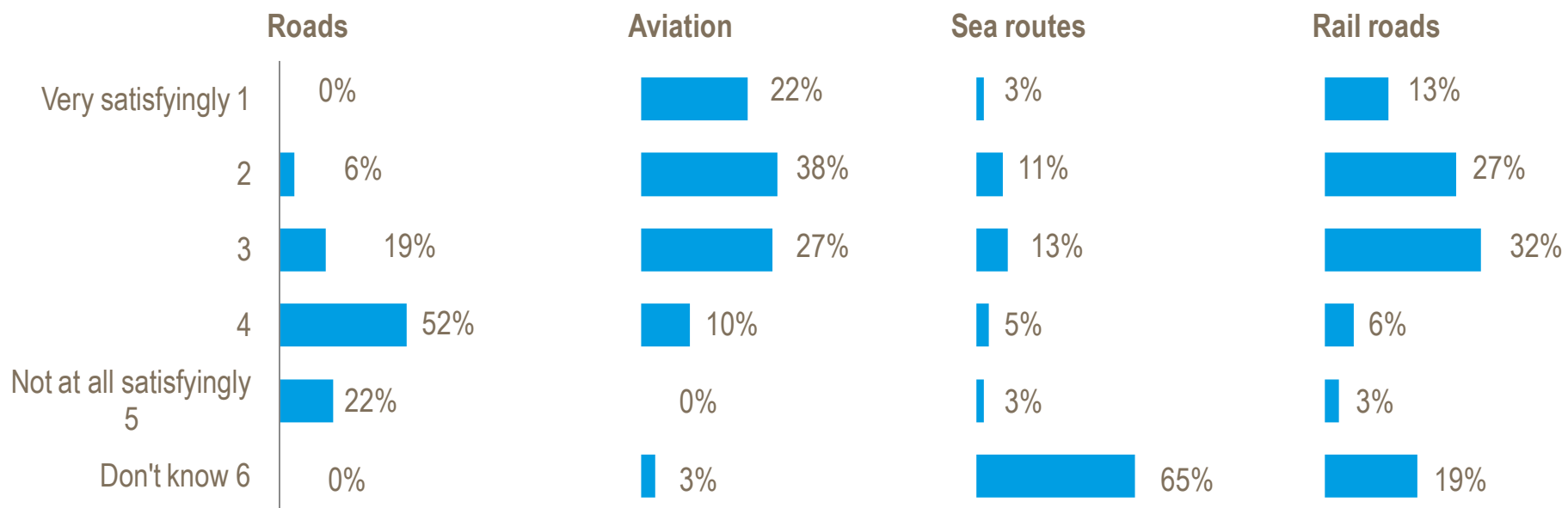
How do you think the process of product certification is?



- Product certification is considered hard by 40% of the respondents
- The product certification process is often associated with bureaucracy, delays, and corruption
- Swedish companies are recommended to advice an agent when handling product certificates

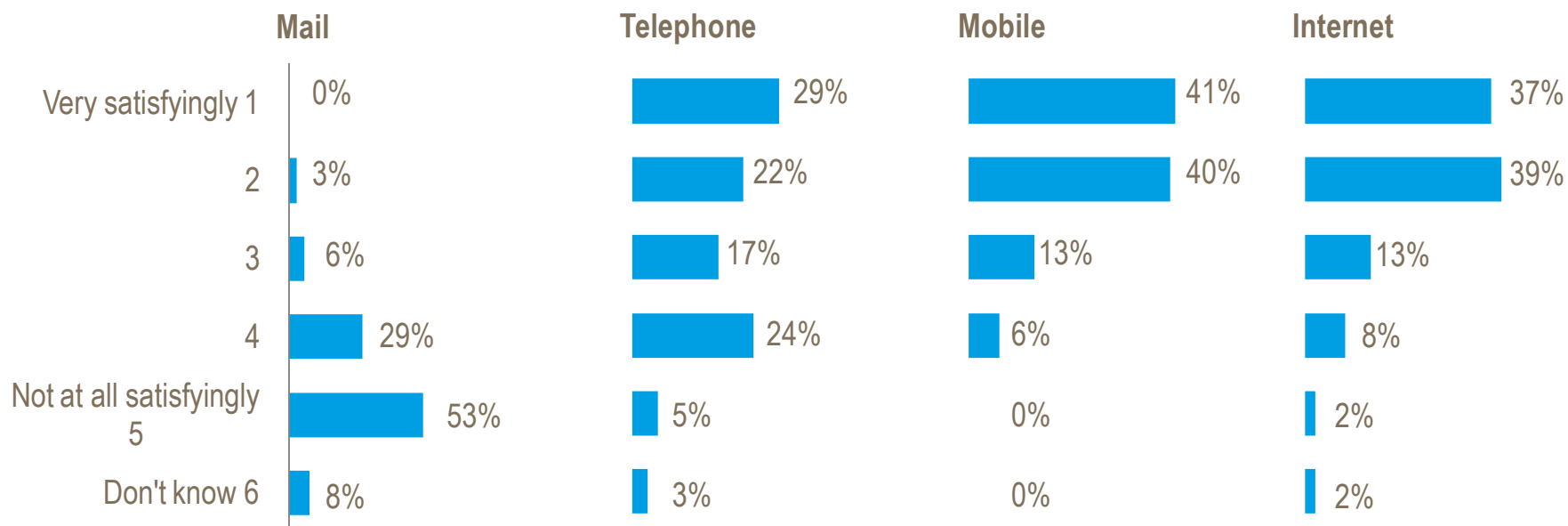
AVIATION AND RAILROADS ARE WELL FUNCTIONING

How do you think the infrastructure works?



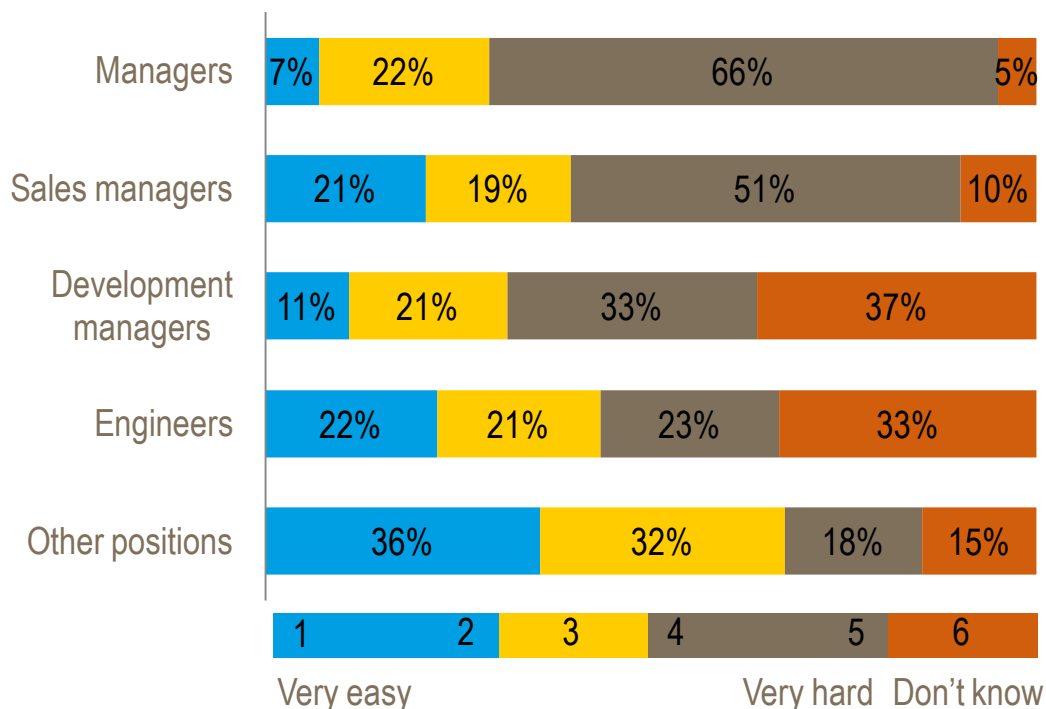
COMMUNICATING IN ANY FORM IS WORKING WELL EXCEPT FOR THE POSTAL OFFICE

How do you think the infrastructure works?



FINDING THE RIGHT PERSONNEL IS HARD

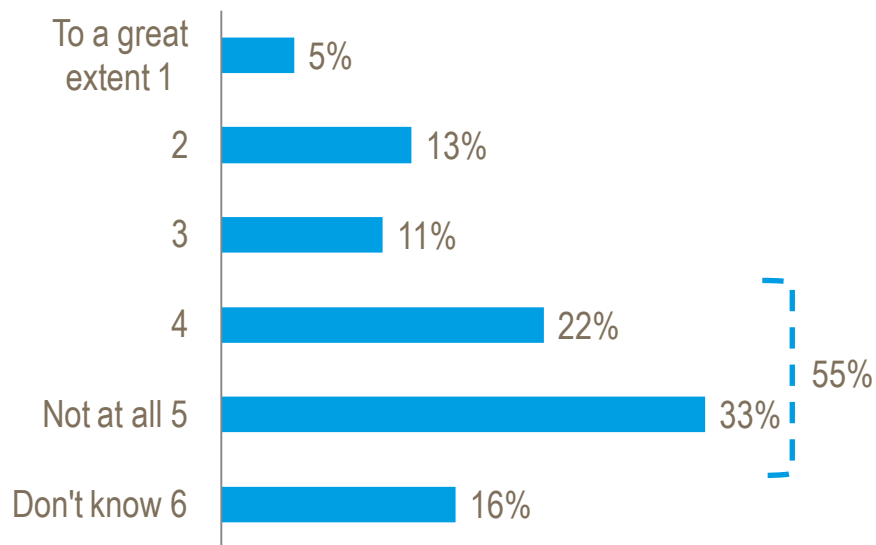
How do you think the availability of local manpower is?



- As in 2008, a majority believe that finding personnel for management positions is hard or even very hard
- The demand for qualified workers is high in Russia
- Swedish companies are often looking for personnel with experience in Western companies

THE SALARY LEVEL ALONE IS NOT A REASON FOR MOVING PRODUCTION TO RUSSIA

Is the salary level compared to the productivity a reason to move the production to Russia?



What market does the production supply?

- Only domestic market
- Only international market
- Both domestic and international markets

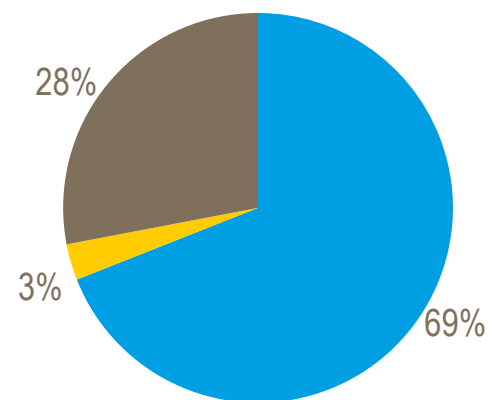
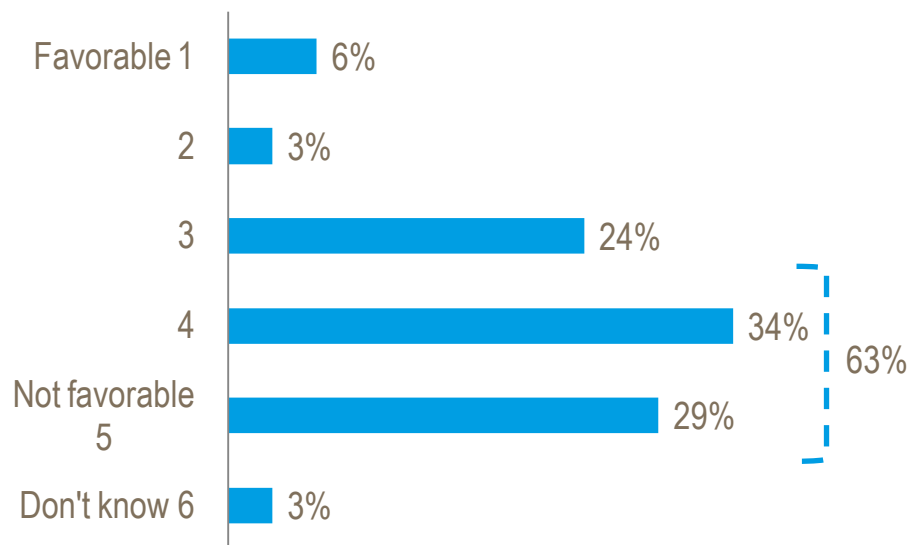


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ALMOST TWO THIRDS BELIEVE THE LEGISLATION TO BE NOT FAVORABLE

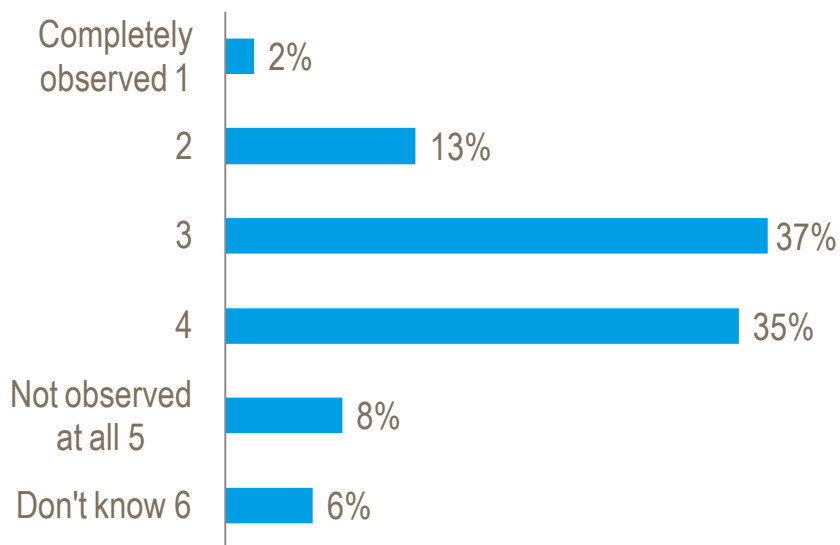
Is the Russian legislation favorable for your operations?



- Nearly two thirds believe that the Russian legislation is not favorable for their operations
- To be compliant with the law is sometimes time consuming and difficult
- When new laws are implemented they are often implemented with short notice without any time to adjust oneself

GOVERNMENTAL ACTIONS INFLUENCE THE OPERATIONS OF COMPANIES

To what extent do you think the law of contracts is observed?



Do you think governmental actions influence the operation?

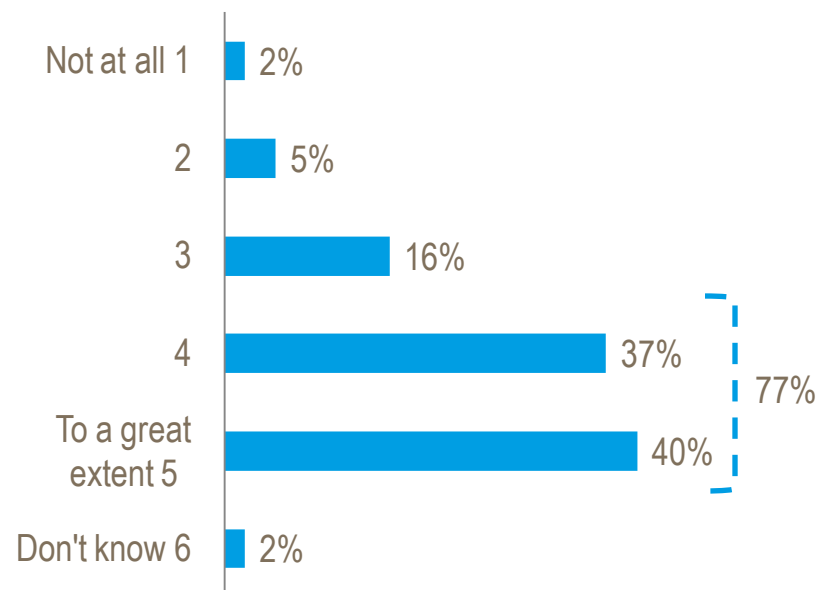
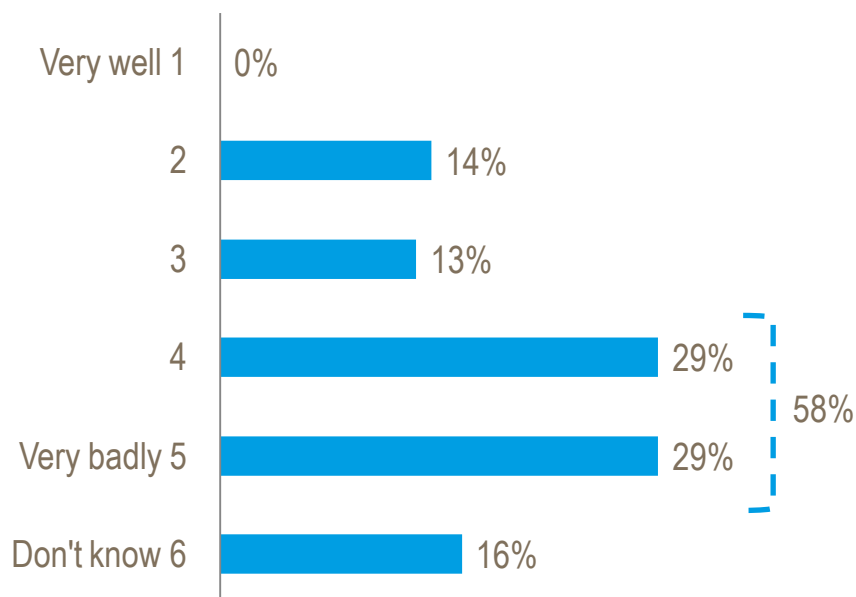


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REFUNDING OF VAT IS NOT WORKING SATISFYINGLY

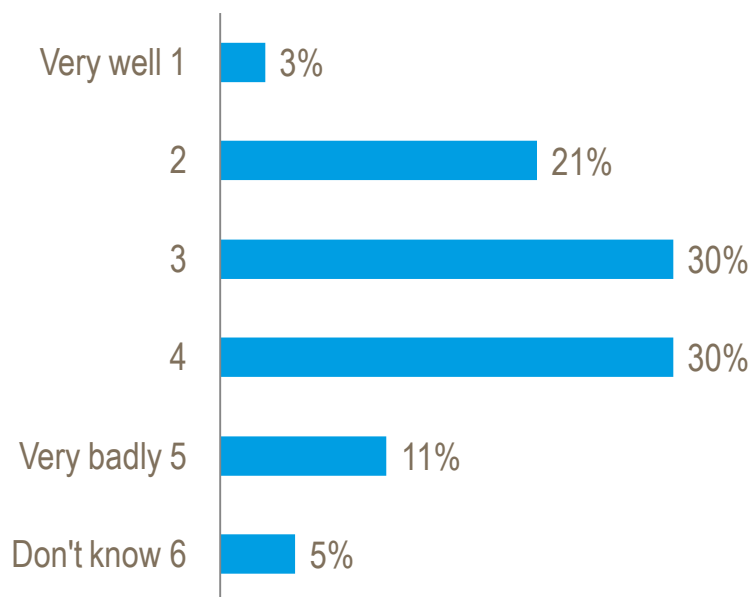
How do you think the refunding of VAT works?



- 58% believe refunding of VAT is not working satisfyingly
- VAT is usually 18% in Russia
- Russia has the same system as Sweden with ingoing and outgoing VAT
- The opinion seem to have switched since 2008 when 42% believed that the refunding of VAT worked well

THE OPINION OF HOW PAYMENT TERMS ARE FOLLOWED DIFFERS

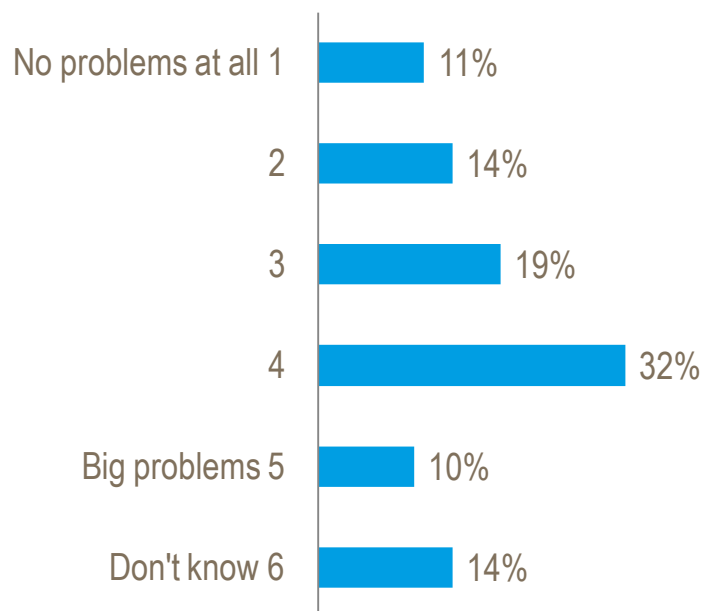
How do you think payment terms are followed?



- The general opinion seem to be that payment terms are followed at an acceptable level, not more and not less
- Payment terms are normally between 30 – 60 days

THE ACCOUNTING SYSTEMS DIFFER BUT ARE NOT CAUSING BIG PROBLEMS

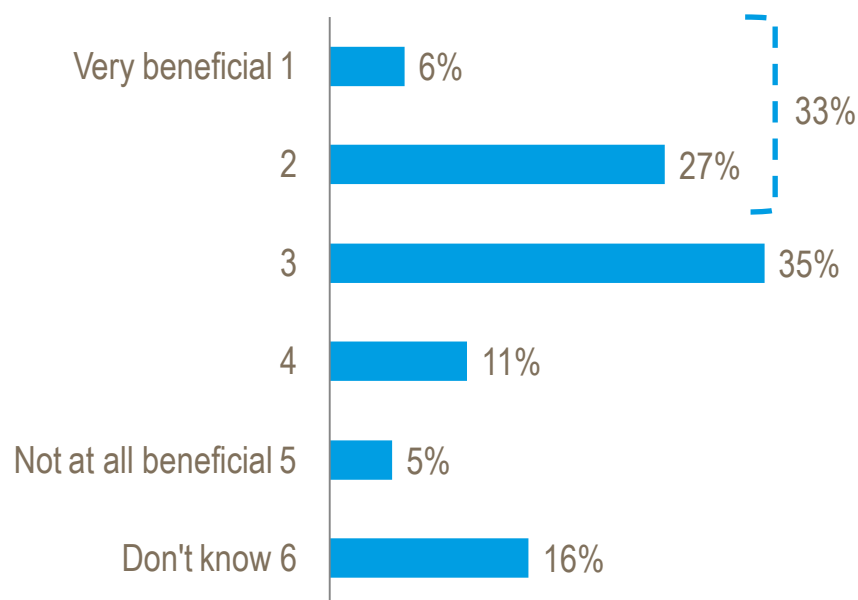
Do differences between the Swedish and Russian accounting systems cause problems for the operation?



- Small companies believe that the differences cause more problems than compared to what larger companies believe
- Transactions are needed to be clearly declared and archived

COMPANY TAXATION IS CONSIDERED BENEFICIAL BY ONE OUT OF THREE RESPONDENTS

What do you think about the company taxation?



- Company taxation is considered to be rather favorable
- The company profit tax is 24%
- The income tax is a flat rate 13%
- The social tax is between 2 – 26% depending on yearly income

THE BANK SYSTEM IS OVERALL NOT FUNCTIONING SATISFYINGLY

How do you think the bank system works?

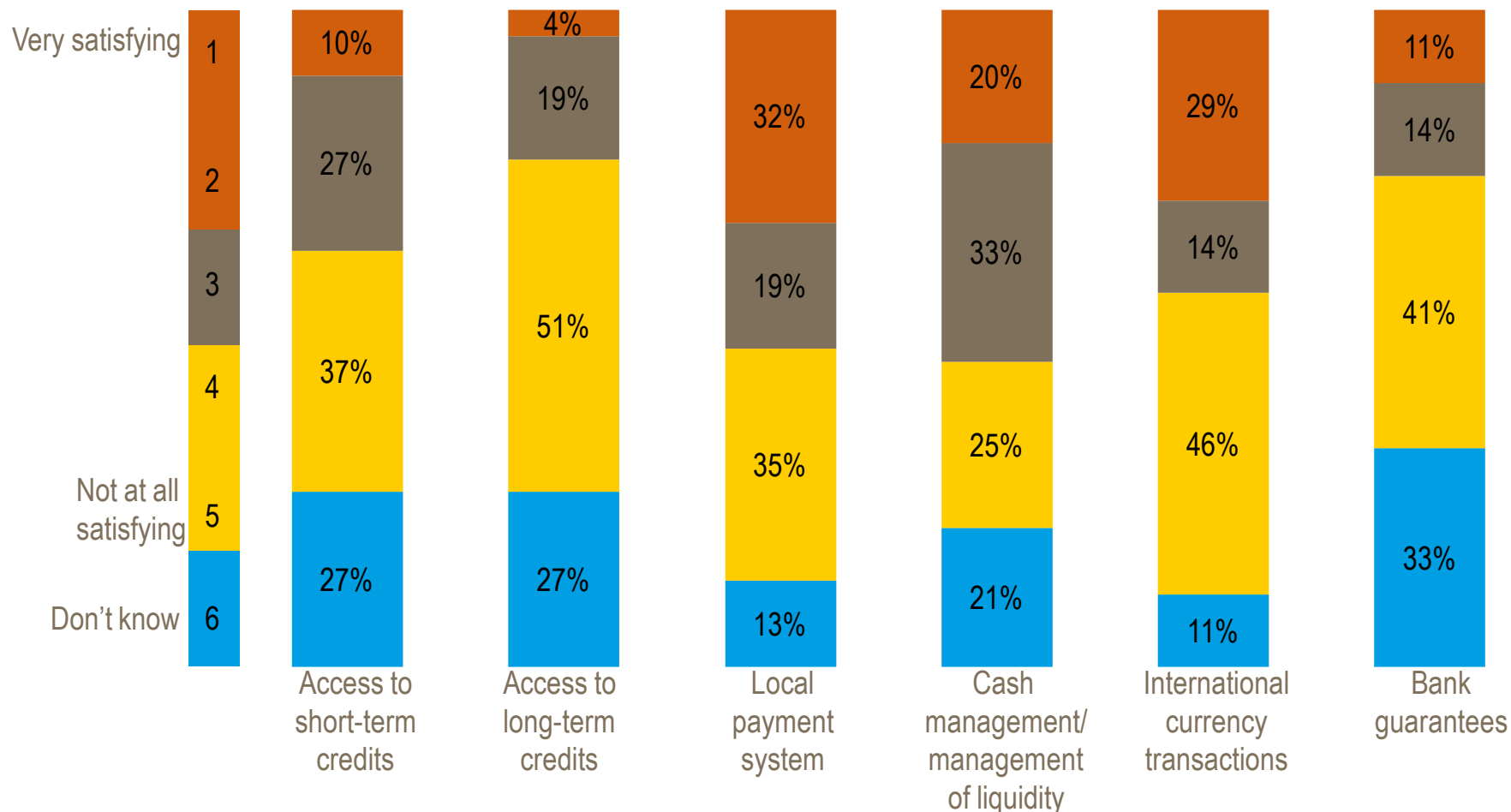
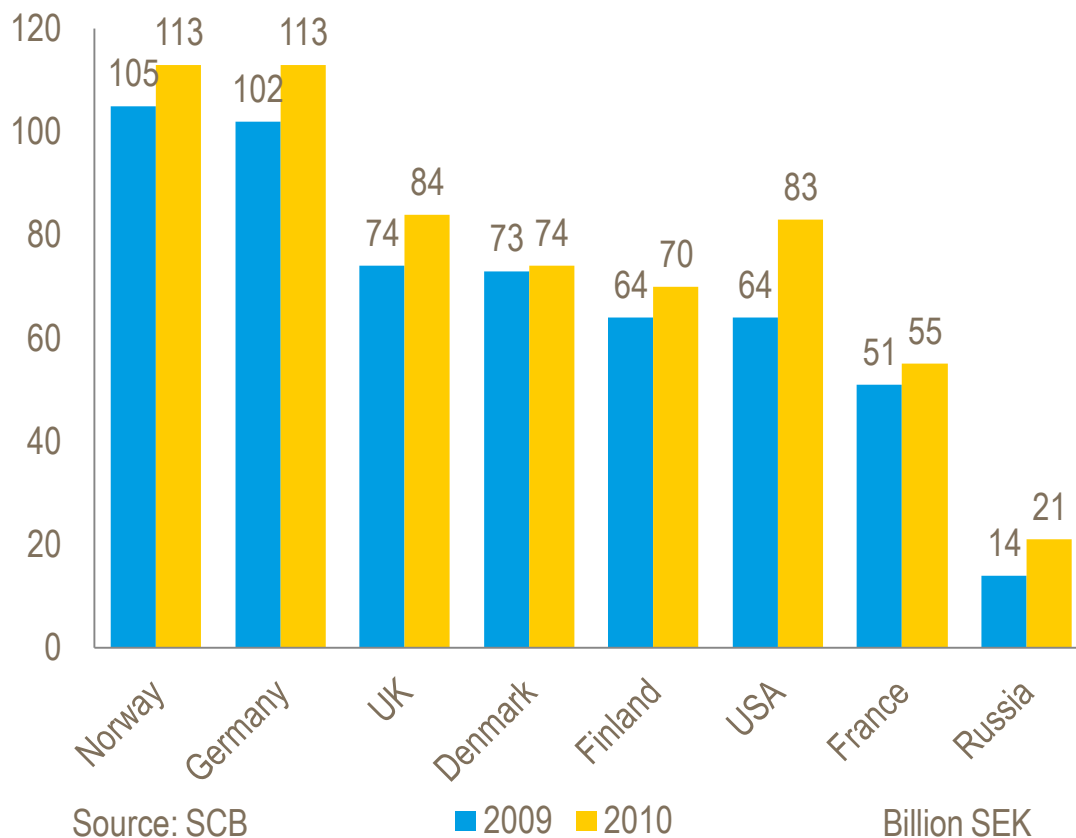


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SWEDISH EXPORTS INCREASED DURING 2010

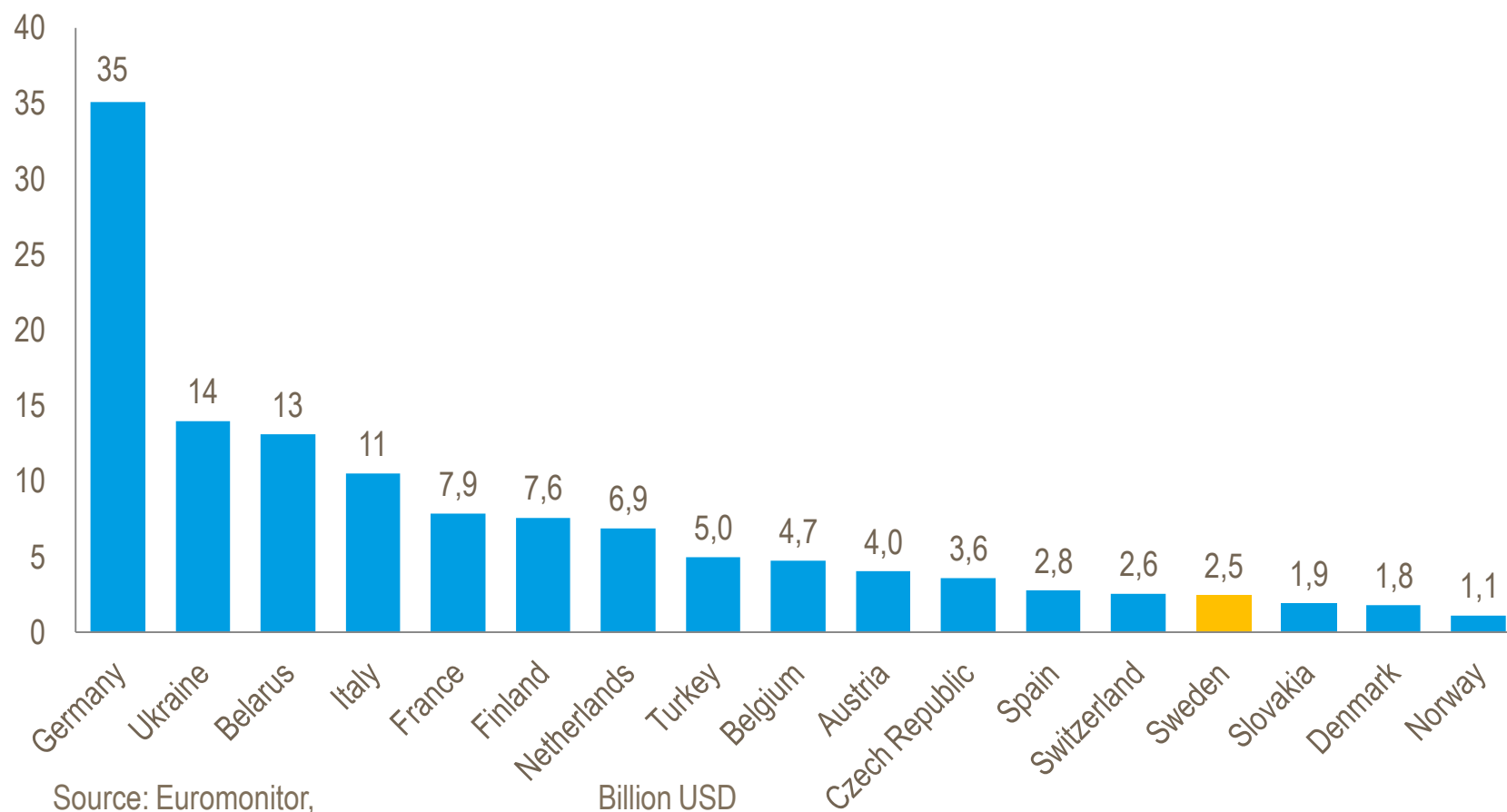
Exports from Sweden by country, 2009 and 2010



- Exports from Sweden increased 14% on average between 2009 and 2010
- Exports to Russia from Sweden increased by 49% which is the second biggest growth of all countries of destination
- Exports to Spain was the only category which fell between 2009 and 2010

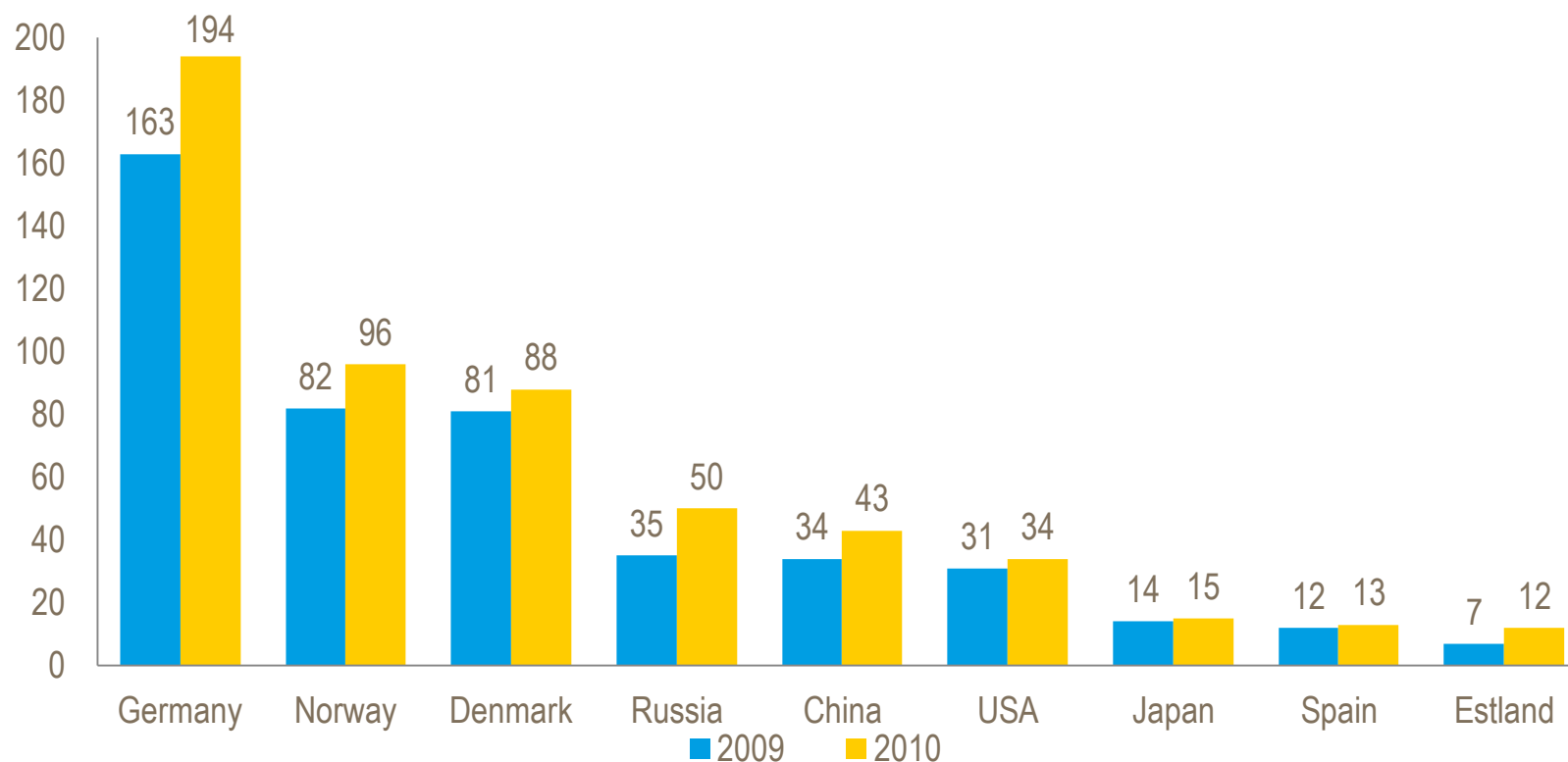
SWEDISH EXPORTS TO RUSSIA IS LARGER THAN BOTH DANISH AND NORWEGIAN EXPORTS BUT SMALLER THAN FINNISH EXPORTS

Exports from European countries to Russia, 2010



RUSSIAN EXPORTS TO SWEDEN ARE COMPARABLE WITH CHINESE AND AMERICAN EXPORTS

Imports to Sweden by country, 2009 and 2010



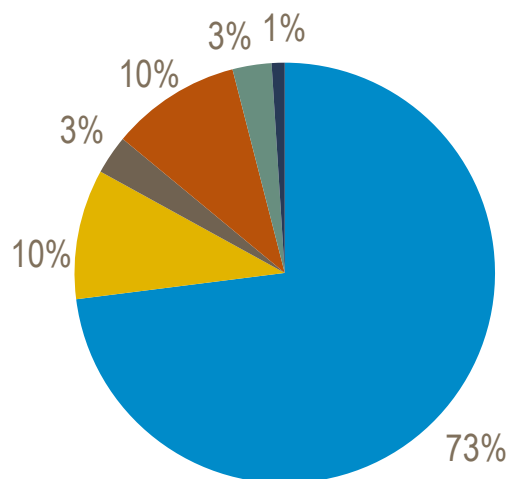
Source: SCB

Billion SEK

SWEDEN IS MAINLY EXPORTING ENGINEERING PRODUCTS AND IMPORTING FUELS

Swedish exports to Russia by product category, 2010

- Engineering products
- Semi manufacturers
- Other manufactured
- Chemical products
- Food
- Raw materials

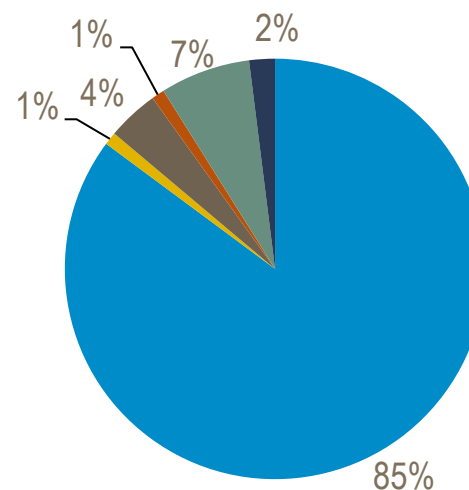


100% = 20 853 million SEK

Source: SCB

Swedish imports from Russia by product category, 2010

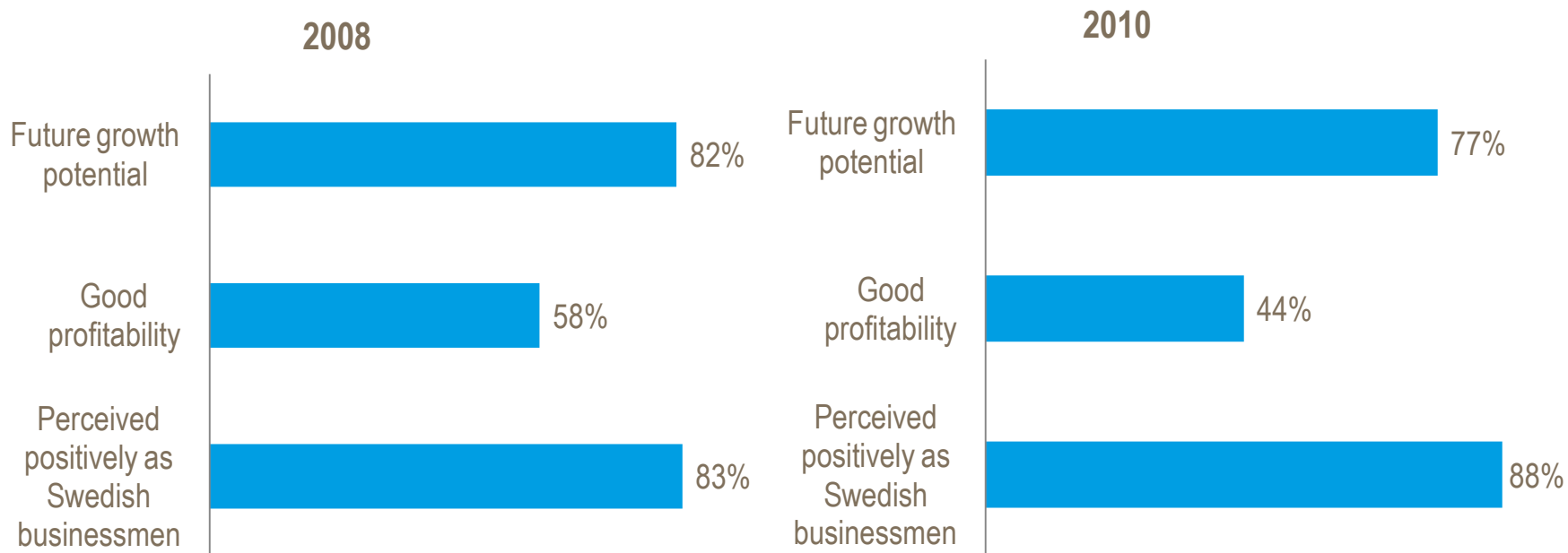
- Fuels
- Engineering products
- Semi manufacturing
- Other manufactured goods
- Chemical products
- Raw materials



100% = 50 752 million SEK

THE FUTURE GROWTH POTENTIAL HAS BEEN CAREFULLY ADJUSTED DOWNWARDS SINCE THE CRISIS OF 2008

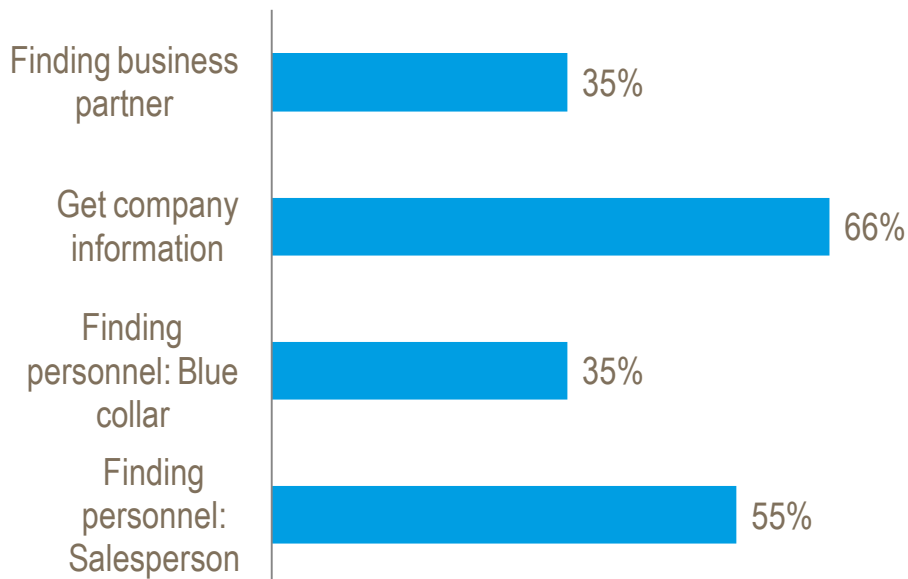
Observed positive feedback



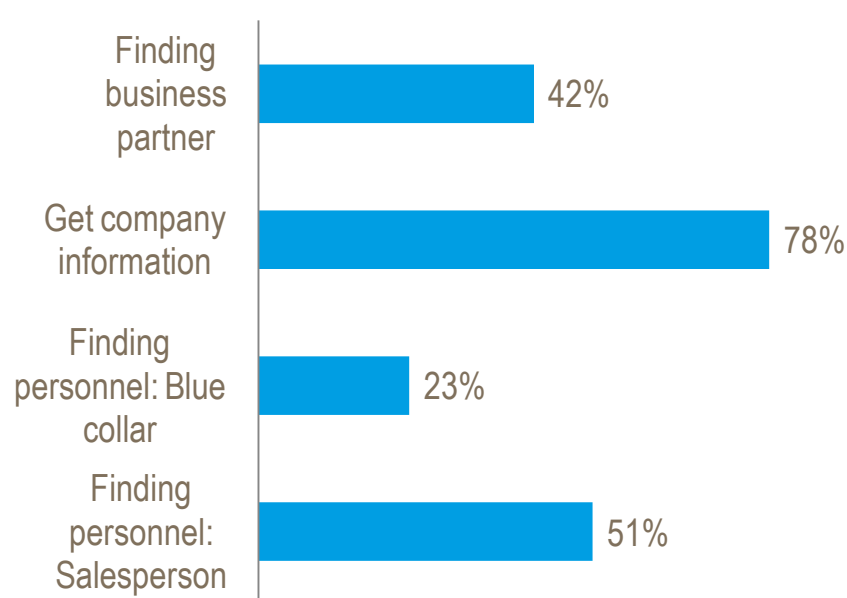
FINDING PERSONNEL IS BELIEVED TO BE A BIT EASIER SINCE THE LAST SURVEY

Difficulties observed

2008

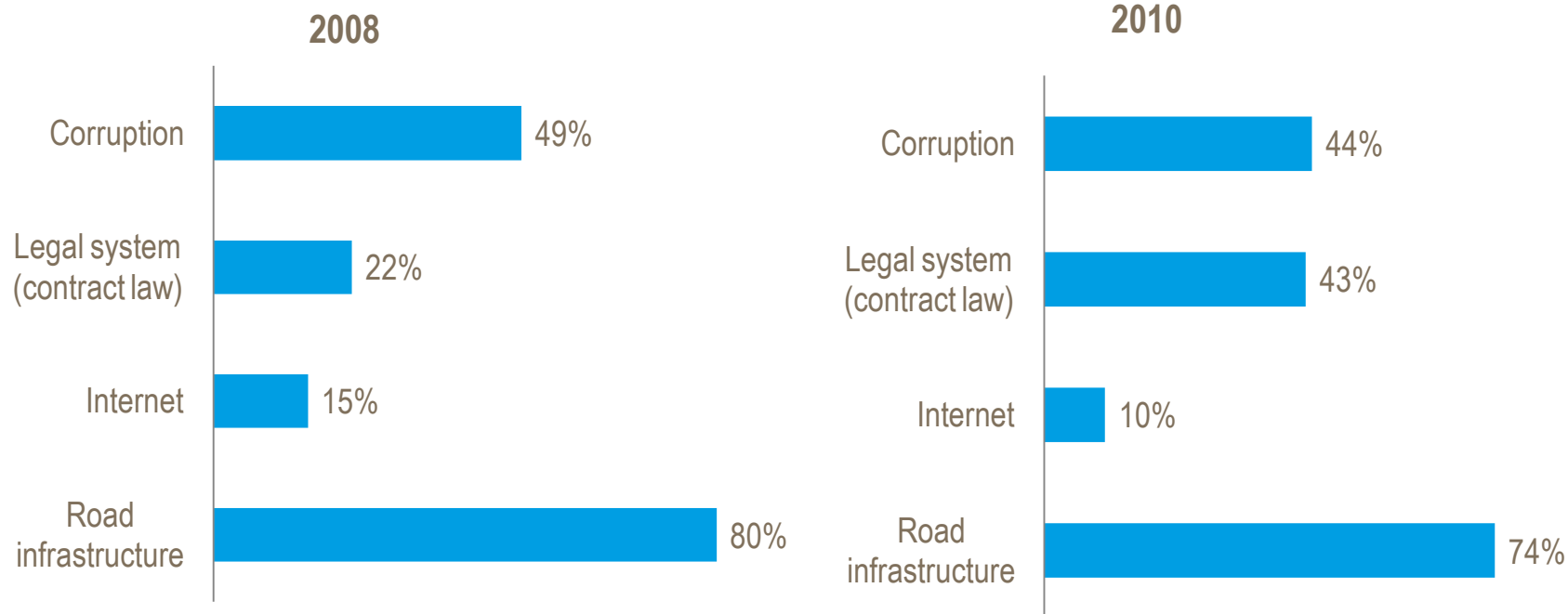


2010



INFRASTRUCTURE HAS IMPROVED BUT THE LEGAL SYSTEM IS CONSIDERED LESS STABLE

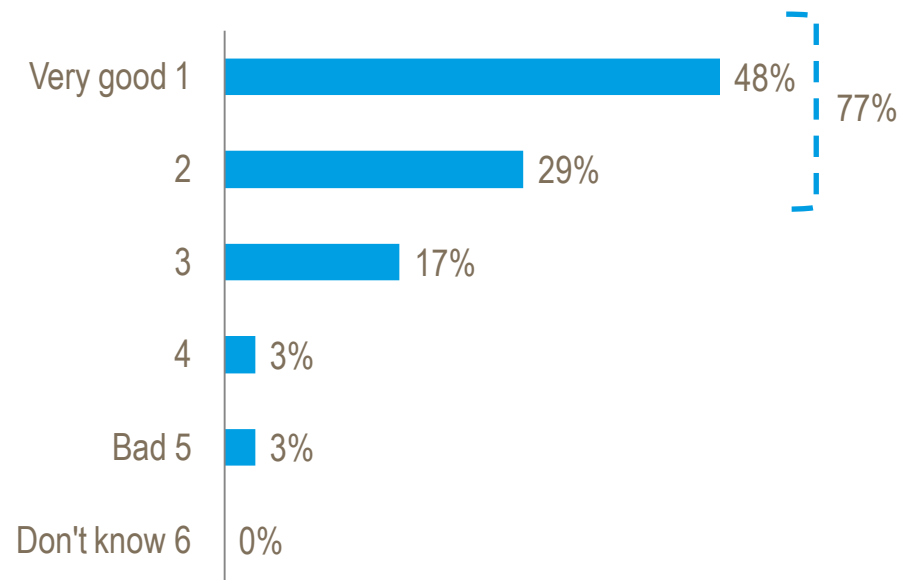
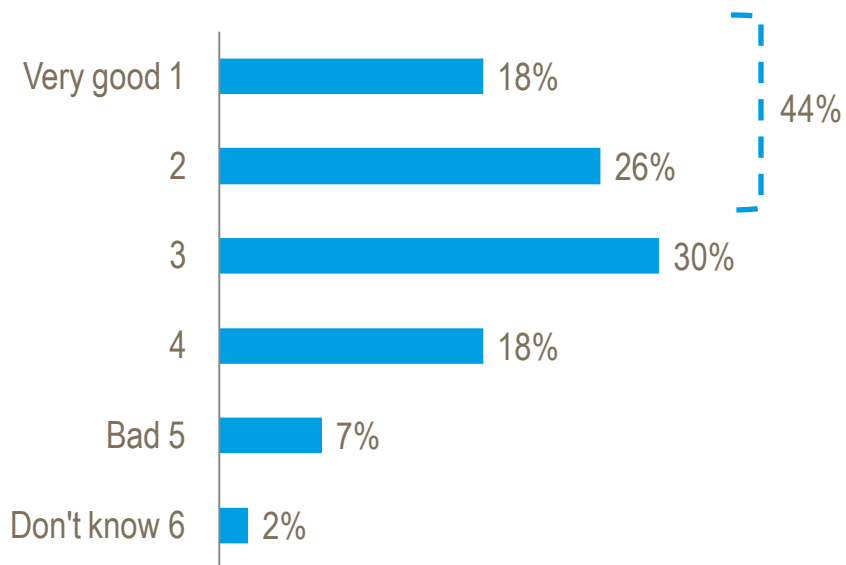
Difficulties observed



PROFITABILITY AND FUTURE GROWTH POTENTIAL IS CONSIDERED TO BE VERY GOOD

If possible, how do you estimate the profitability in comparison with other markets?

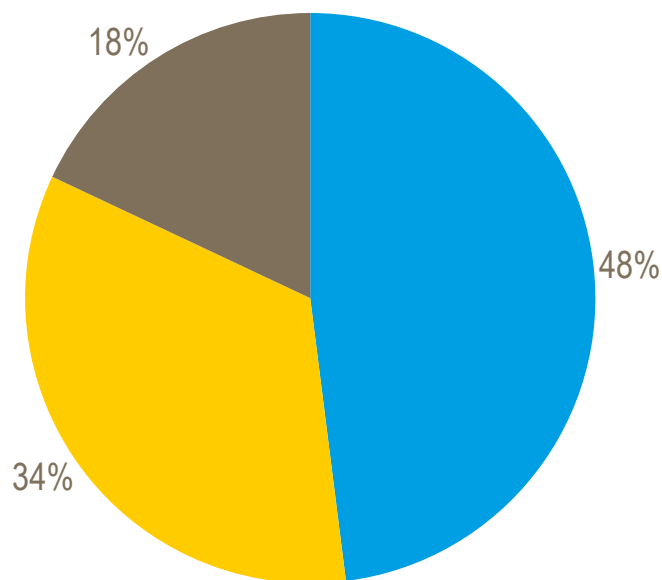
How do you estimate your company's future growth potential on this market?



ONE IN TWO IS PLANNING TO EXPAND THEIR BUSINESS IN RUSSIA

Do you have plans to expand the business from the larger cities/regions?

■ Yes ■ No ■ Don't know



- The share of respondents intending to expand business is about the same as in 2008 (52%)
- Larger companies are more eager to expand and smaller companies are more uncertain